MOUND CITY
BANK

October 19, 2012

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
regs.comments@federalreserve.gov

RE: Regulatory Capital Rules: (1) Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions and Prompt Correction Act; and (2) Standardized Approach for Risk-Weighted Assets, Market Discipline and Disclosure Requirements: Docket No. R-142 and RIN No. 7100-AD87

Dear Ms. Johnson,

Mound City Bank is a $260 million State Chartered Community Bank located in Platteville, Wisconsin. Our bank has been serving the citizens of southwest Wisconsin since 1915. As a community banker I am writing with a great concern over the approach taken by the Board of Governors of the Federal Reserve System (FRB) together with both the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to impose what seems to be a one-size-fits-all regulatory capital program, despite the obvious fact that most believe the Basel III proposals were originally intended for only very large and complex institutions.

While we understand the desire of the agencies to increase both the quality and quantity of regulatory capital, we feel that this approach is extremely harmful to community banks of our size and will in fact lead to a disruption in available credit, not just in our marketplace, but across the entire country.

While we are troubled by the Basel III proposals as a whole, we are most concerned with the three specific proposals that we feel would add undue pressure to community banks which would result in a great constraint in lending and most likely would result in the sale of many of these smaller institutions, leaving many communities across the country under-banked.

The first proposal we wish to address is the **"Accumulated Other Comprehensive Income"** which as proposed, would require that all unrealized gains and losses on available for sale securities, must flow through to common equity tier one capital. Most, if not all community banks investment

25 East Pine Street • Platteville, WI 53818 • (608) 348-2685 • Fax: (608) 348-8035
112 Mound Avenue • Belmont, WI 53510 • (608) 762-5105 • Fax: (608) 762-5107
200 South Main Street • Cuba City, WI 53807 • (608) 744-2141 • Fax: (608) 744-2143
1100 Bus. Hwy. 18 & 151 East • Mt. Horeb, WI 53572 • (608) 437-2685 • Fax: (608) 437-2684
640 Dodge Street • Mineral Point, WI 53565 • (608) 987-3800 • Fax: (608) 987-3871
Website: www.moundcitybank.com • E-mail: mcb@moundcitybank.com • Toll Free: 1-888-622-6069

portfolios, are dominated by US agencies securities, mortgage back securities issued by Freddie Mac are Fanny Mae and tax exempt municipal obligations. Therefore, most of the unrealized gains or losses that occur in these available for sale portfolios are primarily the result of movements in interest rates and are not as a result of credit risk.

The implementation of this proposal would result in one of two actions for our bank, as well as many other community banks. Either we would move all of our securities holdings to, held to maturity, which would result in added liquidity concerns and minimize the ability to use the portfolio for asset liability management positioning, or would require the bank to significantly shorten its portfolios duration in order to avoid the effects of wide swings in interest rates and unrealized positions. This action would further result in not only lowering returns for community banks, but also would result in the restriction of credit available to townships, villages, cities, states and school districts throughout the country.

It is for these reasons that we greatly oppose this proposed treatment and ask the agencies to consider removing this treatment from the proposals.

The second specific proposal which causes us great concern is the **"Treatment of Trust Preferred Securities"**. Most recently as part of the Dodd-Frank Act and the Collins Amendment to DFA TruPs are grandfathered for institutions between 500 million and 15 billions dollars. The new Basel III proposals however, require a complete phase out of TruPs beginning in 2013. Our holding company, Mound City Financial Services, Inc., has issued $5 million dollars in TruPs which was then used to contribute additional capital to our banks books. This proposal to completely phase out the TruPs creates a significant problem for our bank and any other small community bank that has little access to capital.

The phase out of TruPs in 2013 would result in a requirement for our bank to make significant dividend contributions to the holding company in order to retire the Trust Preferred Securities. Once again, the unintended result of disallowing Trust Preferred Securities as capital will result in significantly less capital available to support farm and business lending in our community. If the agencies truly believe the Trust Preferred Securities should eventually not be treated as a true capital, they should at least include a grandfathering of up to 30 years, as that was length of time for which these securities initially had to be issued to meet regulatory guidelines, which community banks felt were set in stone at the time they issued the securities.

We do strenuously oppose the agencies treatment of TruPs beyond what the Collins Amendment suggested under DFA.

The third, most important proposal that we find extremely detrimental to community banks is the **"Capital Risk –Weights for Residential Mortgages and Related Matters, High Volatility Commercial Real Estate and Home Equity Lines of Credit"**. The new proposals would place significantly higher capital risk weights in loans that are secured by real property with basically no evidence to substantiate the need for the heightened capital levels nor a mandate under the law.

While our bank is extremely active in originating and selling one to four family residential mortgages into the secondary market, we also maintain a significant level of balloon mortgages on balance sheet. Nearly 75% of our $200 million loan portfolio is secured by real estate and nearly 50% of that volume is secured by one to four family or multi family residential dwelling properties.

It is extremely important for community banks to provide balloon real estate mortgages for one to four family originations in their community as many loans today do not meet the requirements of a secondary market asset and yet are safe, sound, reasonable credits for our bank. There is no statistical evidence that we suffered any one to four family origination losses in the last 5 years due to predatory lending or poor underwriting. The difficulties in rural areas of America to obtain qualified appraisals under the current law, further argues the need for a strong balloon mortgage program offered by community banks throughout the country.

Once again, the unintended result of the Basel III proposals would result in banks avoiding one to four family balloon mortgages and the ultimate result would be a reduction in home lending and home ownership. Once again, we would suggest that the change in risk rated treatment for mortgage lending is totally unwarranted and could result in catastrophic results, not just for community banks, but for the citizens of our community.

Due to the above mentioned concerns, we ask the agencies to withdraw the proposed regulatory capital rules, to conduct additional study and analysis and then, and only then, propose capital rules which take into consideration the impact that the rules will have, not just on community banks, but the economic well-being of the country.

There are clearly differences between our community banks and the very large complex institutions which the Basel III capital proposals were meant to address. We ask you to please consider a total exemption from the Basel III proposals for America's community banks.

Thank you for the opportunity to comment on these proposals.

Sincerely,

Robert J. Just, Jr.
President